HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Québec CMA

Canada Mortgage and Housing Corporation

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Québec area housing market: slowdown insight for 2009 and 2010

Over the next two years, activity on the housing market will slow down in the Québec census metropolitan area (CMA). After two years of sustained growth, job creation will ease in 2009 and 2010. As well, household formation will decline over the coming years, which will weaken housing demand.

Economy: Québec area stands out

In the last two years, the Québec CMA turned in an economic performance that reflected the success of the 400th anniversary celebrations. The job market grew by 2.4 per cent in 2007 and by 1.5 per cent in 2008, and the unemployment rate reached an all-time low of 4.6 per cent. Investments in infrastructure and the many cultural events energized the regional economy. In all, more than 15,000 jobs were created during the

Figure 1

Source: CMHC
f: CMHC forecasts

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last two years (63 per cent part-time and 37 per cent full-time).

The overall construction sector benefited from these economic conditions and posted strong growth in 2008, as over 7,500 jobs were created and the number of hours worked increased by 13.6 per cent[1]. This sector will support the labour market in 2009 and 2010. In fact, not only did the federal and provincial governments announce investments in infrastructure in order to stimulate the economy, but the City of Québec also stepped up funding for the maintenance and upgrade of this infrastructure. In 2009, the City intends to complete some 178 infrastructure repair and rehabilitation projects and open 82 streets. As well, under the City of Québec's three-year capital program, total investments of close to $1.8 billion are planned.

In addition to the road and municipal infrastructure investments, a number of major projects will be carried out over the next few years, including the expansion of the *Musée national des beaux-arts du Québec* and the *Hôtel-Dieu de Québec* hospital. The modernization of the sports facilities at the PEPS, the physical education and sports pavilion of Université Laval, is also among the larger projects planned for the area.

The professional, scientific and technical services sector also recorded sustained activity in 2008, with nearly 6,500 new jobs. These gains can be explained by the good economic performance of the CMA and the different infrastructure projects that stimulated job creation in the field of consulting engineering. This sector will in fact be favoured by the planned infrastructure investments over the coming years.

Two other sectors also stood out in 2008 in terms of job creation: transportation and storage (+2,075 jobs) and finance, insurance and real estate (+3,175 jobs). There are 11 insurance company head offices in the Québec area and, according to the *Centre de développement en assurances et services financiers*, the insurance and financial services development centre that brings together these companies, 3,000 new employees will have to be recruited by 2014. The insurance market will therefore be a source of job creation for the CMA over the coming years, as Quebec insurers are expanding their operations across Canada, and the aging of population and retirements are fuelling demand for life insurance products.

The Québec CMA has several assets to face the global economic slowdown, including investments in infrastructure, free cultural events to revitalize tourism after the record number of visitors who attended the 400th anniversary festivities, and significant labour needs in the insurance sector. As well, the labour market grew in the first quarter of 2009 (+3.4 per cent), compared to the same period in 2007. However, the monthly employment figures (three-month moving average) since January rather indicate small negative or positive variations on the job market (between -0.1 per cent and +0.4 per cent). After two years of sustained growth, job creation will moderate in the CMA in 2009 and 2010 but will remain slightly positive, reaching about 0.6 per cent.

Demographics to shape housing demand

The good performance of the job market in the CMA drove up net migration. In fact, the latest available data (2006/2007) revealed a net migration level of nearly 4,200 newcomers in the CMA. Despite the anticipated slowdown, this level should be maintained at 3,800 people in 2009 and 2010, given the solid labour market in the area and an increase in net interprovincial migration, with economic conditions having deteriorated in Western Canada. Migration will continue to fuel demand for housing in the CMA, especially rental housing. In fact, the influx of new workers in the area is stimulating demand for dwellings of this type.

On the demographic front, household formation will be less significant in the coming years[2], which will put downward pressure on housing demand in the CMA. In addition, more older households will be formed than younger ones, which will have an impact on tenure options. Demand will be less significant for single-detached homes but stronger for condominiums, which require less maintenance than houses.

[1] Source: *Commission de la construction du Québec* (CCQ), April 2009.

Mortgage rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in Government of Canada bond yields. For 2010, the one-year posted mortgage rate will be in the 4.75-6.00 per cent range, while the three- and five-year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Resale market to slow down

Despite the drop in sales forecast for 2009, the existing home market will be active on account of a sound job market in the CMA, a more abundant supply and the relative affordability of the existing homes compared to new homes.

Resale market activity reached a peak in 2007, with more than 8,000 transactions registered through the Multiple Listing Service (MLS)®. In 2008, the market remained very active, as a small decrease in sales was recorded (-1.3 per cent). The average price of residential properties rose by 9 per cent, and the seller-to-buyer ratio stayed low, attaining 5.1 to 1. The market therefore continued to favour sellers[3], for all property types.

Demand stayed very strong in 2008, stimulated by favourable economic conditions and attractive mortgage rates. However, in the last quarter of 2008, transactions dropped by 9.5 per cent, compared to the same period in 2007. Prices continued to rise, though, registering an increase of 9.1 per cent. More recently, the first quarter figures released by the Canadian Real Estate Association (CREA) revealed that sales decreased by 9 per cent, while the average price rose by 8.6 per cent, in comparison with the first quarter of 2008. As well, the Québec area existing home market continues to favour sellers. In 2009, transactions should fall by 7 per cent, bringing activity back to a level halfway between the volumes registered in 2004 and 2005, meaning that the market will still remain active despite the anticipated decrease. The lower prices on the existing home market represent an advantage when compared to new construction, which will support demand. In 2010, this trend will be reinforced as a result of a more abundant supply of existing properties and the easing of the market. These factors will drive up the number of transactions (+5 per cent).

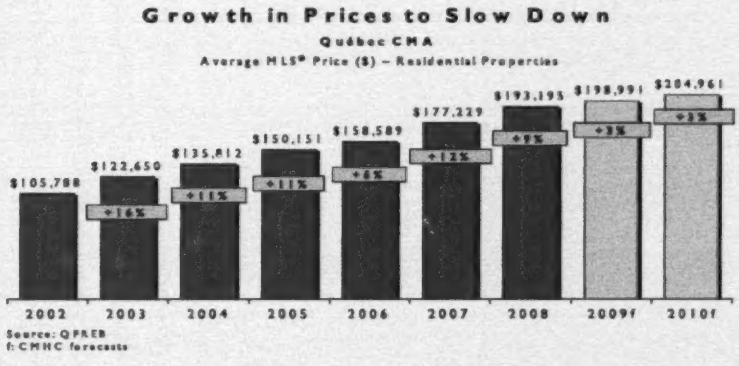
Over the coming years, the aging of the population will work in favour of a new rise in listings, which will cause the market to ease somewhat. The growth in prices will be less significant in 2009 and 2010 (+3 per cent).

Housing starts expected to fall

Residential construction will be harder hit by the economic slowdown for two reasons: the fact that prices are higher on the new home market than on the existing home market and the recent increase in the supply of multiple-unit housing.

Housing activity remained strong in 2008, as starts went up by 3 per cent to 5,457 units. This was the third highest result in the last sixteen years. While the number of new single-detached homes fell (-5 per cent), multiple-unit housing starts rose by 9 per cent, compared to 2007. The gain was due to the increase in condominium activity (+57 per cent) and the steady pace of retirement home construction. In fact, a peak was reached in this last category, with 943 units of this type getting under way in 2008.

Figure 2



[2] Source: *Perspectives démographiques, Québec et régions, 2001-2051*, 2003 edition, Institut de la statistique du Québec.
[3] The market is balanced when the seller-to-buyer ratio stands between 8 and 10 to 1.

In 2009, single-detached home building will slow down on account of a weaker demand on the part of young households and the high price of these houses, compared to other housing types (semi-detached and row houses, as well as condominiums). The slowdown in single-detached home building will have a moderating effect on the growth in prices, which will rise more slowly over the next two years, with increases of 5 per cent in 2009 and 3 per cent in 2010.

In the multiple-unit housing segment, the strong demand for semi-detached and row homes will continue in 2009 and should be maintained in 2010, given the relative affordability of these dwellings and the municipal intensification efforts. This was in fact observed in the first quarter of 2009, when semi-detached and row housing starts rose by 17 per cent. Still in the multiple-unit housing segment, it is important to mention that demand for condominiums is steady because of the aging of the population. In 2008, construction got under way on 1,160 such units, for an increase of 57 per cent over 2007. In 2009, activity should stay strong, although slightly less intense than in 2008, given the recent increase in supply. Still, there should be just over 840 starts in 2009 and 2010.

There will be significantly less retirement home construction over the next two years, on account of the substantial surge in supply in 2007 and 2008. Traditional rental housing starts should increase considerably, though, as a result of the strong demand and the low vacancy rate recorded this past October (0.6 per cent). Overall, multiple-unit housing starts will decrease by 10 per cent in 2009 and then by 7 per cent in 2010.

Residential construction will slow down over the coming years. From a historical perspective, the decreases will still be relatively modest, at 12 per cent in 2009 and 10 per cent in 2010.

Rental market to stay tight

The economic conditions of recent years not only stimulated access to homeownership but also contributed to raising demand for rental housing in the Québec area. In fact, the job creation helped attract workers from other regions of the province, which pushed up regional net migration. This influx into the CMA is significantly fuelling rental housing demand.

It was in this context that the Rental Market Survey conducted this past October revealed that the market had tightened in the CMA, as the vacancy rate fell from 1.2 per cent in 2007 to 0.6 per cent in 2008. In recent years, rental housing demand has remained strong. Several factors stimulated this demand. First of all, the good health of the job market and the increase in net migration should be noted. From a negative level in the late 1990s, net migration in the CMA then became positive, reaching close to 4,200 people in 2006/2007. Even if the most recent figures are not yet known, it is expected that the levels will be high in 2007 and 2008. This migration influx, mainly from other regions across Quebec, is essentially due to the good health of the job market in the CMA. As well, the growth in the supply of traditional rental housing has been weak in the last few years. Despite a tight market, the average rent of two-bedroom apartments rose by 1.9 per cent between the October 2007 and October 2008 surveys—a percentage slightly below the rate of inflation of 2.3 per cent observed over the same period.

In 2009 and 2010, even though rental housing construction is expected to increase, the strong demand will keep conditions tight on this market. The average rent for two-bedroom apartments will rise by 1.5 per cent in both 2009 and 2010, as the changes in energy costs will be less marked.

Forecast Summary Québec CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	7 685	8 110	8 003	7 445	-7,0	7 820	5,0
MLS® Active Listings (annual average)	3 806	3 472	3 493	3 842	10,0	4 035	5,0
MLS® Average Price ($)	158 589	177 229	193 195	198 991	3,0	204 961	3,0
New Home Market							
Starts:							
Single-Detached	2 226	2 144	2 031	1 725	-15,1	1 465	-15,1
Multiples	2 950	3 140	3 426	3 070	-10,4	2 865	-6,7
Starts - Total	5 176	5 284	5 457	4 795	-12,1	4 330	-9,7
Average Price ($):							
Single-Detached	207 227	236 794	261 871	274 965	5,0	283 213	3,0
New Housing Price Index (% chg.)	5,2	4,0	5,3	3,0	-	2,5	-
Rental Market							
October Vacancy Rate (%)	1,5	1,2	0,6	0,6	-	0,6	-
Two-bedroom Average Rent (October) ($)	637	641	653	663	-	673	-
Economic Overview							
Mortgage Rate (1 year) (%)	6,28	6,90	6,70	4,80	-	5,29	-
Mortgage Rate (5 year) (%)	6,66	7,07	7,06	5,64	-	5,94	-
Annual Employment Level	376 600	385 700	391 700	394 000	0,6	396 400	0,6
Employment Growth (%)	-0,3	2,4	1,5	0,6	-	0,6	-
Unemployment rate (%)	5,2	5,0	4,6	5,0	-	5,1	-
Net Migration [1]	4 170	4 500	4 000	3 800	-5,0	3 800	0,0

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), The Quebec Federation of Real Estate Boards by Centris™ (CMHC compilation).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 and 2008 migration data are forecasted

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